# INTRODUCTORY SECTION

# State of North Carolina
# Office of the State Controller

James B. Hunt, Jr., Governor

Edward Renfrow, State Controller
Gwen Canady, Chief Deputy

The Honorable James B. Hunt, Jr.
Governor of the State of North Carolina, and

Members of the North Carolina General Assembly

It is our pleasure to furnish you with the 2000 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of North Carolina. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

For the convenience of users we have divided this comprehensive annual financial report into three major sections, described as follows:

- The **introductory section** includes this transmittal letter and the State's organization chart, including a listing of principal State officials.
- The **financial section** includes the general purpose financial statements (combined statements, the notes, and the required supplementary information), the combining and individual fund and account group financial statements, and schedules.
- The **statistical section** includes selected financial, non-financial and demographic information, much of which is presented on a ten-year basis, as well as required supplementary information.

## *State Reporting Entity and Its Services*

The State of North Carolina entity as reported in the CAFR includes all fund types and account groups of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the financial statements. The State's discretely presented component units are the University of North Carolina system, the State's community colleges, the Golden L.E.A.F. Foundation (*governmental organization*), and various proprietary organizations providing specific services to the public and private sector. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including public education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

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## *Issues and Initiatives*

During fiscal year 1999-2000, the Governor, the General Assembly, and the departments and agencies of State government worked to address key issues facing the citizens of North Carolina.

### *Hurricane Floyd*

Hurricane Floyd passed through the eastern portion of North Carolina on September 15 and 16. Hurricane and tropical force winds, torrential rains, and flooding left one-third of North Carolina suffering from an unprecedented natural disaster. The record-high floodwaters of Hurricane Floyd forced thousands of people from their homes. Many citizens lost homes, farms, and businesses. On December 16, 1999, the General Assembly held a special session for the purpose of setting aside $836.6 million of funds for recovery from damage caused by the winds, rain, and flooding of Hurricane Floyd. Funds were allocated in the following categories and amounts: housing/rental expenditures, $446.3 million; State match of federal funds, $162.2 million; agriculture and fisheries, $98.3 million; local government assistance, $37.8 million; small business, $36.7 million; and various other programs, $55.3 million. The primary sources of funding included: $292.5 million came from General Fund operating budgets; $146.5 million in unspent capital improvement funds, and $286 million from the General Fund Savings Reserve Account. Of the $292.5 million reallocated from General Fund operating budgets, $96.8 million was provided by the Department of Health and Human Services, $65.0 million from State employee health plan and compensation reserves, $45.6 million from the Department of Public Instruction, $14 million from the Department of Correction, $13.6 million from the University of North Carolina System, $8.5 million from the Department of Environment and Natural Resources, $5.8 million from the Community Colleges, and $43.2 million from other entities. As these funds flow into the economies of the areas affected by Hurricane Floyd, income and sales taxes should offset some portion of the cost of our disaster recovery effort.

### *General Obligation Debt*

In November 1996, the voters of North Carolina approved bonds in the amount of $1.8 billion for school construction and $950 million for highway construction. In November 1998, North Carolina voters approved an additional $800 million of new debt to finance grants and loans to local government units for water supply systems, wastewater collection systems, wastewater treatment works, and water conservation and water reuse projects; and an additional $200 million of new debt to finance grants, loans, or other financing to public or private entities for construction of natural gas facilities.

The first bond issue related to the $1 billion of public improvement bonds which were approved in November 1998 was issued on September 1, 1999 in the amount of $197.4 million. The bonds in Series 1999A were issued at rates ranging from 5.0% to 5.4% with a final maturity of March 1, 2019. The bonds in Series 1999B were issued at rates ranging from 6.7% to 6.75% with a final maturity of March 1, 2007.

The second bond issue related to the $1 billion of public improvement bonds was issued on October 1, 1999 in the amount of $2.6 million. The bonds were issued at rates ranging from 4.5% to 4.7% with a final maturity of March 1, 2007.

On September 1, 2000, $300 million in Public Improvement Bonds, Series 2000A were issued, representing a consolidation of Public School Building Bonds in the amount of $295 million and Natural Gas Bonds in the amount of $5 million. The bonds were issued at rates ranging from 5.0% and 5.1% with a final maturity of September 1, 2018.

***University and Community College Bonds***. On November 7, 2000, the State's voters approved $3.1 billion of University and Community College general obligation bonds. The $3.1 billion is projected to be issued over the six-year period beginning in fiscal year 2000-01, with repayments scheduled for fiscal year 2001-02 through fiscal year 2024-25. Total debt service for all of the State's outstanding general obligation debt is projected to be at its highest in fiscal year 2006-07, at $722 million (*assuming no additional voter approved debt in subsequent years*). At June 30, 2000, the State's outstanding general obligation debt totaled $2.5 billion, with an additional $1.95 billion approved and unissued at June 30, 2000 (*prior to the November 7, 2000 bond vote*). Outstanding general obligation debt is projected to peak at $6.043 billion for fiscal year 2005-06. The General Assembly has predetermined the specific building projects to be funded by the bond proceeds. The General Assembly's Higher Education Bond Oversight Committee will monitor capital plans and receive regular reports and updates from the University System, the community colleges, the State Treasurer, and the Office of State Construction. The bond legislation will require many local governments to partially match funds targeted for new community college buildings. The matching requirement is reduced or eliminated for low-wealth counties and for counties that have exceeded historic match requirements. Community college repair and renovation projects do not have matching requirements. Concern has been expressed for an already tight labor market in North Carolina. The combination of State and local road projects, school constructon, and the new construction to be funded by the $3.1 billion of bond proceeds will add to labor market pressures, potentially increasing construction costs.

**Bonds Authorized, Issued, and Unissued**
**November 30, 2000**
*(Expressed in Thousands)*

| *Authorized:* | Date | School Construction | Highway Construction | Clean Water | Natural Gas | University and Community Colleges | Total |
|---|---|---|---|---|---|---|---|
| School Construction | 11/05/1996 | $ 1,800,000 | $ — | $ — | $ — | $ — | $ 1,800,000 |
| Highway Construction | 11/05/1996 | — | 950,000 | — | — | — | 950,000 |
| Clean Water | 11/03/1998 | — | — | 800,000 | — | — | 800,000 |
| Natural Gas | 11/03/1998 | — | — | — | 200,000 | — | 200,000 |
| University and Community Colleges | 11/07/2000 | — | — | — | — | 3,100,000 | 3,100,000 |
| **Total Authorized** | | 1,800,000 | 950,000 | 800,000 | 200,000 | 3,100,000 | 6,850,000 |
| *Issued:* | | | | | | | |
| Public School Building Series 1997A | 03/01/1997 | 450,000 | — | — | — | — | 450,000 |
| Highway Bonds, Series 1997A | 11/01/1997 | — | 250,000 | — | — | — | 250,000 |
| Public School Building Series 1998A | 04/01/1998 | 450,000 | — | — | — | — | 450,000 |
| Public School Building Series 1999 | 04/01/1999 | 450,000 | — | — | — | — | 450,000 |
| Public Improvement, Series 1999A | 09/01/1999 | — | — | 172,400 | 5,000 | — | 177,400 |
| Public Improvement, Series 1999B | 09/01/1999 | — | — | — | 20,000 | — | 20,000 |
| Public Improvement, Series 1999C | 10/01/1999 | — | — | 2,600 | — | — | 2,600 |
| Public Improvement, Series 2000A | 09/01/2000 | 295,000 | — | — | 5,000 | — | 300,000 |
| **Total Issued** | | 1,645,000 | 250,000 | 175,000 | 30,000 | — | 2,100,000 |
| ***Unissued — November 30, 2000*** | | $ 155,000 | $ 700,000 | $ 625,000 | $ 170,000 | $ 3,100,000 | $ 4,750,000 |

| | |
|---|---|
| ***Outstanding general obligation debt at November 30, 2000*** | $ 2,809,986 |
| ***Outstanding and unissued general obligation debt at November 30, 2000*** | $ 7,559,986 |

## *Construction and Other Commitments*

At June 30, 2000, the State had commitments of $1,560.7 million for construction of highway facilities. Of this amount, $1,185.3 million relates to the Highway Fund, and $375.4 million relates to the Highway Trust Fund. The other commitments for construction and improvements of State government facilities totaled $412.9 million (including $365.8 million for the Department of Environment and Natural Resources, $11.4 million for the Department of Correction, and $10.9 million for the Department of Health and Human Services).

The University of North Carolina system (component unit) had outstanding construction commitments of $235.3 million (including $71.5 million for University of North Carolina - Chapel Hill, $50.7 million for UNC Hospitals, and $18.3 million for East Carolina University). Community colleges (component units) had outstanding construction commitments of $25.9 million (including $6.1 million for Cape Fear Community College, $3.0 million for Fayetteville Technical Community College, and $3.0 million for Johnston Community College). The proprietary component units had outstanding commitments of $28.4 million (including $12.8 million for State Ports Authority and $10.9 million for State Education Assistance Authority).

## Litigation

***Leandro et al v. State of North Carolina and State Board of Education* — Right to a Sound Basic Education.** In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the State constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties but remanded the case for trial on the claim for relief based on the Court's conclusion that the constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the “sound basic education” mandated by the Supreme Court. If not appealed, the ruling will require legislative action necessary to implement and fund pre-kindergarten programs. The cost of such programs is undetermined but may exceed $100 million.

***Bailey v. State, Emory v. State, and Patton v. State* -- State Tax refunds -- State and Federal Retirees.** In 1992, State and local government retirees filed *Bailey, et al. v. North Carolina, et al.*, a class action lawsuit challenging repeal of the income tax exemptions for State and local government retirement benefits as a breach of contract and an unconstitutional impairment of their contract rights and seeking tax refunds for taxes paid in tax years 1989 through 1991. The *Bailey* plaintiffs obtained judgment in May 1995 in the Superior Court for Wake County, and on May 8, 1998, the Supreme Court of North Carolina upheld the Superior Court's decision. Several additional cases, also named *Bailey, et al. v. North Carolina, et al.*, and one named *Emory, et al. v. North Carolina, et al.*, were filed by State and local government retirees to preserve their refund claims for subsequent tax years through tax year 1997. The outcome of these cases was controlled by the outcome of the initial *Bailey* case.

In 1995, a group of federal government retirees filed *Patton, et al. v. North Carolina, et al.*, a class action tax refund lawsuit seeking refunds of State taxes paid on federal pension income since tax year 1989. The *Patton* plaintiffs claimed that if the *Bailey* plaintiffs prevailed on their refund claims, then the disparity of tax treatment accorded state and federal pension income held unconstitutional in *Davis v. Michigan* (1989) would be reestablished. In *Davis*, the United States Supreme Court ruled that a Michigan income tax statute that taxed federal retirement benefits while exempting those paid by state and local governments violated the constitutional doctrine of intergovernmental tax immunity. At the time of the *Davis* decision, North Carolina law contained similar exemptions in favor of State and local government retirees. The repeal of those exemptions in 1989 resulted in the *Bailey* case.

On June 10, 1998, the General Assembly reached an agreement settling the *Bailey*, *Emory* and *Patton* cases. The agreement, embodied in a consent order, provided that the State would pay $799 million in two installments, one in 1998 and the other in 1999, to extinguish all liability for refunds for tax years 1989 through 1997 of taxes paid by federal, State and local government retirees who had five years creditable service in their retirement system prior to August 12, 1989, the date of enactment of the statute repealing the exemptions from taxation of State and local government retirement benefits, or who had "vested" by that date in certain "defined contribution" plans such as the State's 401(k) and deferred compensation plans. The consent order was conditioned upon the General Assembly appropriating the funds to make the payments set forth in the consent order and court approval of the settlement following notice to class members. A liability of $399 million was recorded in the General Fund at June 30, 1999 and paid in July 1999. All payments required of the State by the settlement agreement have now been paid. The Superior Court is supervising payment of the refunds.

***Smith v. State and Shaver v. State* — State Tax Refunds -- Intangibles Tax.** The *Smith* case is a class action tax refund lawsuit related to litigation in *Fulton Corporation v. Faulkner*, a case filed by a single taxpayer and decided by the United States Supreme Court in 1996 regarding the constitutionality of intangibles taxes previously collected by the State on shares of stock. On July 7, 1995, while the *Fulton* case was pending before the United States Supreme Court, the *Smith* class action was commenced in North Carolina Superior Court on behalf of all taxpayers who paid the tax and complied with the requirements of the applicable tax refund statute, G.S. 105-267, including its 30-day demand requirement. These original plaintiffs were later designated Class A when a second group of taxpayers were added. The new class, designated Class B, consisted of taxpayers who had paid the tax but failed to comply with the refund statute's 30-day demand requirement. On June 11, 1997, judgment was entered awarding the Class A plaintiffs refunds totaling $120 million, with interest, and these refunds have been paid. In a separate order also entered on June 11, 1997, Class B was decertified and the refund claims of Class B taxpayers were dismissed. Class counsel appealed the Class B decertification/dismissal order, and on December 4, 1998, the North Carolina Supreme Court reversed the dismissal. As a result of the *Smith* decision, the State was required to pay refunds to Class B intangibles taxpayers.

A second class action tax refund lawsuit, *Shaver, et al. v. North Carolina, et al.*, was filed on January 16, 1998, by the same taxpayers as Class B plaintiffs in *Smith* under alternative theories of recovery for tax years 1991 through 1994 and for refunds for one additional tax year, 1990. Their additional claim for 1990 totals approximately $100 million. A Settlement Agreement was executed on July 8, 1999, and a Consent Order Tentatively Approving Settlement was executed and signed by the presiding judge the same day. Pursuant to the Settlement Agreement and the Consent Order, the State paid the sum of $200 million on October 1, 1999, and the sum of $240 million on July 10, 2000 to distribute refunds to *Smith* Class B taxpayers for tax years 1991 through 1994 and to *Shaver* taxpayers for tax year 1990. (The settlement does not affect *Smith* Class A taxpayers because they have already been paid refunds). On September 24, 1999, the Court conducted a fairness hearing and entered an order approving the Class Action Settlement. In order to achieve the final consummation of the settlement, the General Assembly appropriated the $240 million balance for the 2000-2001 fiscal year. The liability for the $240 million is reported in the General Fund. All payments required of the State by the settlement have now been paid and the Superior Court is supervising payment of the refunds. The settlement fixes the State's liability for these claims and completes the litigation over North Carolina intangible taxes paid on shares of stock.

***N.C. School Boards Association, et. al. v. Harlan E. Boyles, State Treasurer, et. al*. — Use of Administration Payments.** On December 14, 1998, plaintiffs, including county school boards of Wake, Durham, Johnston, Buncombe, Edgecombe and Lenoir Counties, filed suit in Superior Court requesting a declaration that certain payments to State administrative agencies must be distributed to the public schools on the theory that such amounts are civil penalties which under the North Carolina Constitution must be paid to the schools.

For the last fiscal year for which information was available to them, plaintiffs allege liability of approximately $84 million. Until this matter is resolved, any refunds and interest will continue to accrue. The North Carolina Attorney General's Office believes that sound legal arguments support the State's position on the outstanding claims.

***Faulkenbury v. Teachers' and State Employees' Retirement System, Peele v. Teachers' and State Employees' Retirement System, and Woodard v. Local Governmental Employees' Retirement System* — Disability Retirement Benefits**. The plaintiffs are disability retirees who brought class actions in State court challenging changes in the formula for payment of disability retirement benefits and claiming impairment of contract rights, breach of fiduciary duty, violation of other federal constitutional rights, and violation of state constitutional and statutory rights. The Superior Court ruled in favor of the plaintiffs. The Order was affirmed by the North Carolina Supreme Court in 1997. The case went back to the Superior Court for calculations of benefits and payment of retroactive benefits, along with determination of various remedial issues. As a result of the remedial proceedings, there have been two appeals to the appellate courts concerning calculation of the retroactive benefits. The plaintiffs previously submitted documentation to the court asserting that the cost in damages and higher prospective benefit payments to the plaintiffs and class members would amount to $407 million. Calculations and payments so far indicate that retroactive benefits will be significantly less than estimated, depending in part on the pending appeal. Payments have been made by the State of approximately $83 million. A liability of $43.6 million for the retroactive benefits has been booked in the Teachers' and State Employees Retirement System.

**Southeast Compact Commission — Disposal of Low-level Radioactive Waste.** North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997 the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact recently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of $80 million of Compact payments expended on the permitting of the site, plus $10 million of future lost income, interest and attorney fees. The North Carolina Attorney General's office believes that sound legal arguments support the State's position on this matter.

***Ford Motor Credit v. State and Chrysler Credit v. State.* – Installment Paper Dealer Tax.** The plaintiffs purchased dealer installment sales contracts from automobile manufactures that had financed new car inventories for automobile dealers in North Carolina. The Department of Revenue issued assessments against the plaintiffs, claiming that the purchase of the dealer's installment sales contracts was subject to the state of North Carolina's installment paper tax. The plaintiffs paid the tax assessments then sued the Department demanding refunds. A judgement was entered against the Department of Revenue in both cases. The combined liability is slightly over $58.7 million. The appellate courts have affirmed the *Chrysler* judgment with the result that the Department was required to repay approximately $20.5 million. The refund was paid in October 2000. On November 1, 2000, the North Carolina Court of Appeals issued an order accepting the Secretary of Revenue's motion to dismiss an appeal previously filed by the North Carolina Department of Revenue in the *Ford Motor Credit* case. As a result of withdrawing the appeal the Department will be required to repay approximately $38.2 million. The liability is scheduled to be paid in November 2000. The issue raised by these cases is not expected to arise again with these taxpayers but may arise in connection with other taxpayers.

**Other Litigation.** The State is involved in numerous other claims and legal proceedings, many of which normally recur in governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

## New Governmental Reporting Model Infrastructure Reporting

On June 30, 1999, the Governmental Accounting Standards Board published ***GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments***, which provides a new look and focus of reporting public finance in the United States. The new standard will significantly change the way state and local governments report their finances to the public. In addition to the State's general government agencies, the accounting and financial reporting for the State's Community College System campuses (*component unit*), and the campuses of the University of North Carolina (*component unit*) will also be affected by this new GASB standard.

An important aspect of the new standard is the requirement to provide information about infrastructure assets. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Our primary focus related to infrastructure will necessarily be at the N.C. Department of Transportation and the State's roads and highway systems. Additionally, a significant amount of effort will be required for our universities and community colleges to complete their individually published financial statements based on the new standard defined by GASB Statement No. 34. As we look at the various aspects of the new GASB standard, the new infrastructure accounting and reporting requirements seem to give us our greatest cause for concern. There undoubtedly will be additional cost to the State to implement this new GASB standard and to maintain the accounting and reporting of this new information on a timely basis.

The effective date of GASB Statement No. 34 is the fiscal year 2001-2002. Minimum requirements will call for an inventory and categorization of the State's major road and highway systems, and an objective assignment of costs and useful lives to the State's major infrastructure assets. The Department of Transportation's accounting system will need to be capable of capturing and maintaining this information. By June 30, 2006, the State will be required to reflect the major infrastructure assets, with related depreciation and accumulated depreciation, acquired or significantly reconstructed, or that received significant improvements since July 1, 1980, on its financial statements. The universities and community colleges will be required by GASB Statement No. 34 to have all infrastructure assets placed in service since July 1, 1980, with related depreciation and accumulated depreciation, recorded in their accounting records by June 30, 2002. This undertaking will be no small task.

The new GASB Statement No. 34 is a priority topic for state auditors, state treasurers and state controllers. A task force of the National Association of State Auditors, Comptrollers and Treasurers (NASACT) has begun work on solving the implementation issues presented by GASB Statement No. 34.

## North Carolina Highway System: Condition Assessment and Funding

A major new financial reporting requirement for governments, discussed above, is the inclusion of infrastructure assets in governments' financial statements, to include depreciation and accumulated depreciation. One allowable alternative to depreciating infrastructure assets is to demonstrate that the infrastructure assets are being maintained at an acceptable condition level. Our State is moving towards implementation of the historical cost method with depreciation. Our State road system includes an estimated 78,083 miles of roads. The Department of Transportation is required by G.S. 136-44.3 to survey and report on the condition of the State highway system. This report provides estimates of :

(1) The annual cost of routine maintenance of the State highway system;
(2) The cost of eliminating any maintenance backlog by categories of maintenance requirements;

(3) The annual cost to resurface the State highway system based upon a 12-year repaving cycle for the primary system and a 15-year cycle for other highways; and
(4) The cost of eliminating any resurfacing backlog, by type of system.

On the basis of this report, the North Carolina Department of Transportation develops a statewide annual maintenance program for the State highway system, which is subject to the approval of the North Carolina Board of Transportation and takes into consideration the general maintenance needs, special maintenance needs, vehicular traffic, and other factors deemed pertinent. Transportation engineers, at the end of the fiscal year, certify the maintenance of highways in each division in accordance with an annual work program, along with explanations of any deviations. The report on the condition of the State highway system and the annual maintenance program are presented to the Joint Legislative Transportation Oversight Committee by November 30 of each even-numbered year. A detailed assessment is conducted of the State’s pavements, structures, and roadway features. The methodologies used in the survey and assessment are based on acceptable practices used in other state transportation departments across the country.

The *1998 Report on the Condition of the State Highway System* concludes that the condition of the State highway system is directly related to the level of funding, and that current funding levels for routine maintenance and resurfacing are inadequate. In a high growth State such as North Carolina, the trend of increasing lane miles and increased traffic on existing roads, along with general deterioration from the elements, are at the heart of the problem.

The most current *Condition* report highlights that while road maintenance funding has increased over the last decade, the increase in funding has not kept pace with inflation. The December 1998 report estimated total maintenance needs, including backlogs, ranges from $705 million in fiscal year 1999-2000, to $1.035 billion in fiscal year 2008-2009 (averaging $849.5 million per year). For the year ended June 30, 2000, $461 million was spent on road maintenance. The approved State budget included $482 million of road maintenance funding for fiscal year 2000-2001.

## *Economic Condition and Outlook*

### ***Condition***

Many signs point to an economic slowdown in North Carolina. Statewide employment increased 1.8% during the first nine months of 2000 compared to a 3% increase during the same period in 1999. Job layoffs in the state rose from a quarterly average of 5,400 in 1999 to 7,800 in the first half of 2000. Even in the fast-growing metropolitan counties of North Carolina, the pace of economic activity slowed in 2000. Again comparing employment growth for January to September 2000 to the same period for 1999, employment growth slowed from 3.3% to 1.2% in Charlotte, from 4% to 2% in the Triangle (*Raleigh, Durham, and Chapel Hill*), and from 3% to -0.5% in the Triad (*Greensboro, Winston-Salem, and High Point*).

Although the state's economic engine slowed in 2000, the slowdown did not affect all sectors equally. During the past year (August 1999 to August 2000), seasonally-adjusted jobs in manufacturing fell 3.4%. The manufacturing sectors leading in job losses were textiles, apparel, transportation equipment, furniture and fixtures, electronic equipment, and tobacco products. These job losses reflected two factors at work in North Carolina. The first is continuing restructuring in the textile, apparel, and tobacco industries. The second factor is a reduction in industries making durable products, a change that is typical during economic slowdowns.

In contrast, jobs continued to increase in the service sector during 2000. Over 67,000 jobs were added in services during the past year. Leading gainers were wholesale and retail trade, financial services, educational services, and the federal government.

While North Carolina's workers and businesses coped with slower economic growth in 2000, the state's consumers also faced higher inflation during the year. Through August, the Consumer Price Index (CPI) rose at an annual rate of 3.9% in 2000, up from 2.2% in 1999. Much of the jump in the CPI was due to significantly higher fuel prices.

Some borrowing also became more expensive in 2000. The prime lending rate rose three times in 2000 to 9.5%, and other short-term interest rates followed. However, longer-term interest rates actually trended downward during the year, perhaps reflecting a market expectation that future borrowing costs will drop.

The North Carolina urban/rural disparity in job creation narrowed in 2000. From January to August 2000, 30% of the statewide increase in jobs occurred in fifteen urban counties. This percentage is considerably lower than in previous years and indicates a more significant economic slowdown in urban counties compared to rural counties.

There are three reasons behind the apparent economic slowdown in North Carolina in 2000. First, the national economy slowed in 2000, from a growth rate of 5% early in the year to under 3% at the end of the year. This national slowdown meant nationwide purchases of North Carolina products, particularly manufactured products, also slowed in 2000. Second, the current economic expansion in the state is now in its ninth year, and expansions of such length are difficult to sustain. Third, the Federal Reserve raised interest rates six times since June 1999 in a specific effort to slow the economy. The Fed's policy appeared to definitely take effect in 2000.

## *Outlook*

Most forecasts project continued slower economic growth , at least through the first half of 2001. An Economic Activity Index developed at North Carolina State University forecasts composite activity in retail sales, construction, and employment falling 1.5% in late 2000 and early 2001, after rising 2.7% during the previous year. The slower economy will impact the manufacturing sector more than the service sector. This will result in a continued decline in manufacturing jobs through mid-2001. However, if the national economic growth rate slows enough to satisfy the Federal Reserve, then there may be a turnaround in the economy in the second half of 2001. This would especially occur if the Fed began reducing interest rates in early 2001. It generally takes six to twelve months for lower interest rates to stimulate the economy. A revived economy would boost the manufacturing and contruction sectors and the stock market.

Some relief is expected from the inflation rate in 2001. If oil prices don't repeat their 2000 rise in 2001, and if national economic growth stays in the 2% to 3% range, then upward pressure on prices should abate. Also, if the Fed does reduce interest rates in early 2001, then borrowing costs will fall. In short, the Federal Reserve may be able to achieve the "soft-landing" it has desired for the economy. A soft-landing means reducing the growth rate of the economy without causing a recession. A soft-landing allows the economy to "rest and refresh" before beginning another period of more rapid growth. A soft-landing is also designed to keep inflation in check. If, indeed, a soft-landing has occurred in 2000 and early 2001, then more rapid growth could return to the economy in late 2001.

However, it is important to recognize that North Carolina will continue to face economic challenges in 2001. Among them will be slower growth in revenues for state government, continued urban/rural disparities in growth and job opportunities, restructuring in tobacco and textiles, and remaining as an attractive location for businesses in an increasingly competitive world.

*— Economic analysis prepared by Dr. Michael L. Walden, Professor*
*North Carolina State University*
*November 1, 2000*

## *Financial Information*

### *Internal Control*

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal financial assistance, the State also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, internal audit staff, and independent auditors of the government.

### *Budgetary Control*

In addition, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund and most departmental special revenue funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level by way of quarterly allotments, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. This "Certified Budget" is the legal expenditure authority; however, executive changes to the legal budget may be approved by the Office of State Budget and Management (OSBM). This results in the "Final Budget" presented in the financial statements.

### *GAAP Accounting*

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143-20.1 requires the Office of the State Controller to prepare a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP). Furthermore, the Governmental Accounting Standards Board and the nation's financial community have encouraged states to present, in their annual reports, financial statements of the governmental funds that are prepared on the modified accrual basis of accounting, following generally accepted accounting principles. Under this basis, which more adequately serves the financial community's analytical and other needs, revenues are recognized when they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year-end. Generally, expenditures are recognized when a liability is incurred. Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

## *Results of Operations*

### General Governmental Funds

**Revenues and Other Financing Sources**

Revenues and other financing sources for general governmental functions (*General Fund, special revenue funds, and capital projects funds*) amounted to $26.130 billion for the fiscal year ended June 30, 2000, using the modified accrual basis of accounting. The major categories of revenues and other financing sources are shown in the following table. Amounts are expressed in millions.

| | Amount | Percent of Total |
|---|---|---|
| **Revenues:** | | |
| Taxes | $ 14,569 | 55.8% |
| Federal funds | 7,253 | 27.8% |
| Local funds | 511 | 2.0% |
| Investment earnings | 501 | 1.9% |
| Fees, licenses and fines | 1,046 | 4.0% |
| Other | 353 | 1.4% |
| Total revenues | 24,233 | 92.9% |
| **Other Financing Sources:** | | |
| Operating transfers in and other sources | 1,697 | 6.5% |
| Proceeds from bond sale | 200 | 0.6% |
| Total other financing sources | 1,897 | 7.1% |
| **Total Revenues and Other Financing Sources** | $ 26,130 | 100.0% |

**Tax Revenues.** Tax revenues increased by $752 million in 2000, reflecting a higher rate of growth in General Fund income tax collections of 7.73% in 2000, versus 5.37% in 1999. Individual income tax collections in the General Fund increased by $511 million in 2000 to $7.098 billion, a 7.76% increase over 1999. Sales tax collections in the General Fund grew by $19 million in 2000, a .57% increase over 1999, compared to a 2.12% increase from 1998 to 1999. Highway taxes were $1.594 billion in fiscal year 2000, $88.6 million, or 5.89% more than in 1999.

**Federal Funds.** Federal funds revenues grew by $956 million in 2000, up by 15.2% over 1999. Increases in Federal revenues are due to increased Federal program expenditures for which the State is reimbursed.

**Investment Earnings.** Investment earnings of $500.9 million reflect a decrease of $28 million in 2000. Investment earnings include realized/unrealized gains, and distributed and accrued interest on cash and investments.

## Expenditures and Other Financing Uses

Expenditures and other financing uses for general governmental purposes totaled $26.922 billion in 2000, using the modified accrual basis of accounting. The major categories of expenditures and other financing uses, by function, are shown in the following table. Amounts are expressed in millions.

| **Expenditures:** | **Amount** | **Percent of Total** |
|---|---|---|
| Current: | | |
| General government | $ 1,230 | 4.6% |
| Education | 6,675 | 24.8% |
| Health and human services | 8,411 | 31.2% |
| Economic development | 429 | 1.6% |
| Environment and natural resources | 371 | 1.4% |
| Public safety, corrections, and regulation | 2,000 | 7.4% |
| Transportation | 2,599 | 9.7% |
| Agriculture | 144 | 0.5% |
| Tax judgments | 440 | 1.6% |
| Capital outlay | 159 | 0.6% |
| Debt service | 265 | 1.0% |
| Total expenditures | 22,723 | 84.4% |
| **Other Financing Uses:** | | |
| Operating transfers out | 1,577 | 5.9% |
| Operating transfers to component units | 2,622 | 9.7% |
| Total other financing uses | 4,199 | 15.6% |
| **Total Expenditures and Other Financing Uses** | $ 26,922 | 100.0% |

**Significant changes in expenditures**. The trend of increases in expenditures, an increase of $2.26 billion for 2000, was directly related to the continued emphasis on education ($421 million increase), health and human services ($746 million increase), and Hurricane Floyd disaster relief expenditures administered by the Department of Crime Control and Public Safety (*public safety, corrections, and regulation function*, $329 million increase). General government expenditures increased by $190 million, or 18.3%. The largest part of this increase relates to decreased offsetting retirees' health premium revenues which were used to fund retirees' health premium expenditures.

A large portion of the governmental expenditures, *tax judgments*, is the result of the North Carolina Supreme Court ruling in *Smith vs. State* of North Carolina (**See Note 18**). The legal settlement required the State to pay $440 million into a settlement fund in two installments, $200 million by October 1, 1999, and $240 million by July 10, 2000.

Educational expenditures (K-12) increased by $421 million largely because of enrollment growth, increased teacher compensation, increases in the number of teaching positions, and the general increase in dollars spent on State administered programs and costs associated with providing public education. Health and human services increased by $746 million in 2000. Transportation expenditures increased in fiscal year 2000 by $90 million. Debt service increased $37 million from 1999 to 2000 and will continue to climb as the State continues to issue general obligation debt to fund capital projects for education, highways and utilities.

Additional information, in greater detail and for the past ten years, may be examined in the statistical section.

## General Fund

**_GAAP Fund Balance_**

The fund balance of the General Fund declined by $878.5 million in 2000. Expenditures and transfers out exceeded revenues and transfers in by $857.7 million. Total assets at June 30, 2000, were $5.118 billion, with total liabilities at $4.852 billion. Tax refunds payable were $1.0129 billion in 2000, as compared to $802.8 million in 1999. This $210.1 million, 26.2%, increase includes $100 million of individual income tax refunds deferred for payment to fiscal year 2000-2001 due to processing delays, and $20 million in corporate income tax refunds delayed to balance the General Fund budget on a cash basis.

In an average year, taxpayer refunds as a percent of gross cash collections approximate 13.5% for individual income tax; just over 8% for corporate income tax; and 5.5% for sales and use tax. These rates of overcollection are the result of the State's tax policies, tax withholding and estimating tables, and in some cases, the desire of the taxpayer to receive a refund at the end of the tax year.

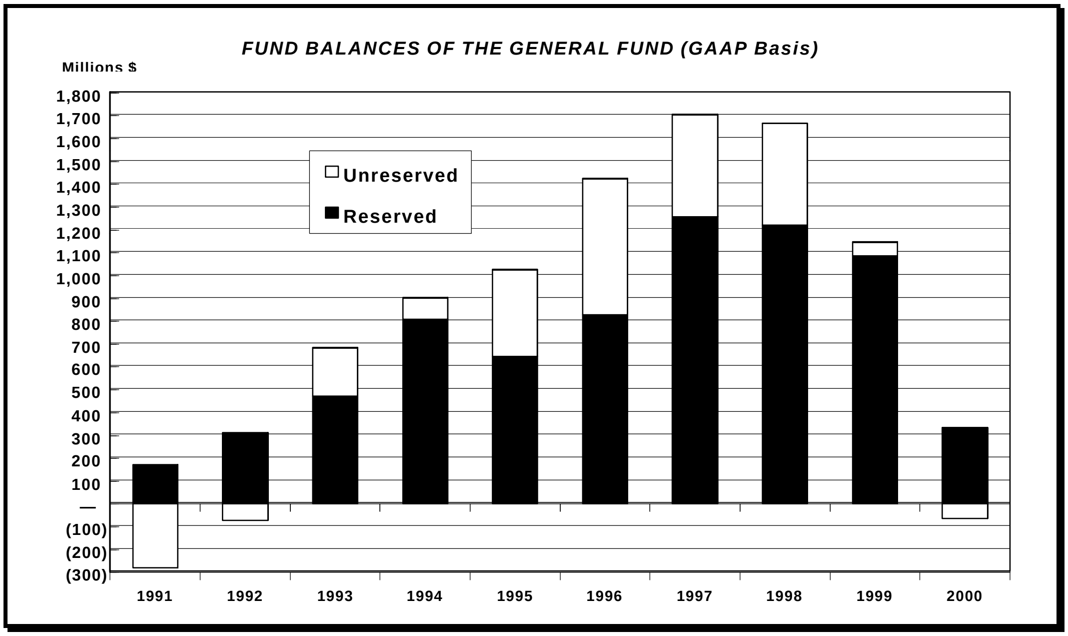
At June 30, 2000, total fund balance of the General Fund on the modified accrual basis was $265.7 million, in comparison to a $1.144 billion balance at the end of 1999.

The State's unreserved fund balance designations in the General Fund represent tentative plans for use in a future period. The State's internal governing body (*General Assembly*) establishes restrictions on the use of these assets which are reported as fund balance designations. Fund balance designations in the General Fund are established based on the amount of reserves available as measured on the budgetary basis of accounting and authorized carryforwards for continuing General Fund programs. These designations totaled $870.647 million. As shown in the table below, the fund balance available to be designated was a negative $64.834 million on a modified accrual basis (dollars in thousands):

| Unreserved Designated Fund Balance | *General Fund* |
|---|---|
| Repairs and renovations | $ 7,052 |
| Clean Water Management Trust Fund | 1,054 |
| Disaster relief | 543,565 |
| Educational programs | 162,131 |
| Economic development | 8,389 |
| Continuing programs | 27,176 |
| Health and human services | 119,192 |
| Railroad dividends | 918 |
| Disproportionate share | 1,170 |
| Total designations | $ 870,647 |
| | |
| Unreserved fund balance, Exhibit A-1 | $ (64,834) |

Restrictions in the form of reserves of $330.5 million, exceeded total fund balance of $265.7 million, resulting in a negative $64.8 million unreserved fund balance. The State's liabilities to creditors and restrictions/designations of fund balance (equity) exceed the State's assets as determined by generally accepted accounting principles by a total of $935.4 million.

The following chart illustrates the fund balances on the modified accrual (GAAP) basis of the General Fund for the last ten fiscal years.




## Budgetary Fund Balance

For fiscal year 1999-2000, the General Fund closed the year with a zero unreserved fund balance. This compares to June 30, 1991, when the General Fund unreserved fund balance was $441 thousand. North Carolina is required by its constitution to balance the General Fund on a budgetary basis. The budgetary basis reserved fund balance totaled $447.5 million (see table below). See **Note 2** of the Notes to the Financial Statements for a more detailed discussion of our State's budgetary process. The following schedule summarizes current year changes in the budgetary reserve accounts. Amounts are expressed in thousands.

| | | Increases | | | (Decreases) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| General Fund Reserved Fund Balance | Balance June 30, 1999 | Transfers from General Fund Unreserved Fund Balance | Appropriated Expenditure to General Fund Reserved Fund Balance | Unbudgeted Revenues | Transfers to General Fund Unreserved Fund Balance | Transfer to General Fund Budget Code as a Departmental Receipt | Transfers to Non-General Fund Budgetary Funds | Unbudgeted Expenditures | Balance June 30, 2000 |
| Savings | $ 522,521 | $ 967 | $ — | $ — | $ (485,966) | $ — | $ — | $ — | $ 37,522 |
| Retirees' health premium | 288,024 | — | — | — | — | — | — | (170,278) | 117,746 |
| Repairs and renovations | 164,683 | 2,902 | — | — | (150,000) | — | (10,533) | — | 7,052 |
| Intangibles tax refunds | — | — | 240,000 | — | — | — | — | — | 240,000 |
| NC Railroad acquisition | 61,000 | — | — | — | — | — | (19,000) | — | 42,000 |
| NC Railroad dividends | — | — | — | 918 | — | — | — | — | 918 |
| Clean water management | 31,054 | — | — | — | (30,000) | — | — | — | 1,054 |
| Disproportionate share | 19,552 | — | — | — | — | — | — | (18,382) | 1,170 |
| Aquariums | 30,000 | — | — | — | — | — | (30,000) | — | — |
| Work First | 17,362 | — | — | — | — | (17,362) | — | — | — |
| Capital Improvements | 7,000 | — | — | — | — | — | (7,000) | — | — |
| Total | $ 1,141,196 | $ 3,869 | $ 240,000 | $ 918 | $ (665,966) | $ (17,362) | $ (66,533) | $ (188,660) | $ 447,462 |

## Budgetary Savings Reserve Account

During the 1991 session, the General Assembly established a Savings Reserve Account as a restricted reserved portion of fund balance in the General Fund, becoming effective for the year ended June 30, 1992. Under this legislation, one-fourth of any unreserved credit balance (*defined by the General Statutes as "...the credit balance, as determined on a cash basis, not already reserved to the Savings Reserve Account."*) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve until the account contains funds equal to 5% of the amount appropriated to the General Fund operating budget for the preceding year. For the fiscal year ended June 30, 1999, the General Assembly delayed the $40.4 million deposit into the Savings Reserve Account, leaving the total reserve at $522.5 million. For fiscal year 1999-2000, the General Assembly voted to use $200 million from the Savings Reserve Account to be appropriated to fund the first installment payment resulting from the intangibles tax cases in which the State received adverse rulings (See *Intangibles Tax Ruling* above). An additional $286 million was withdrawn from the Savings Reserve Account at the end of fiscal year 1999-2000 as part of the year-end effort to balance the budget and provide for General Fund commitments at the beginning of fiscal year 2000-2001. At June 30, 2000, an additional $967 thousand was credited to the Savings Reserve Account. The General Assembly appropriated an additional $120 million to the Savings Reserve Account for fiscal year 2000-2001.

***Summary of Savings Reserve Account (in millions) :***

| Date | | Description | Increase/ (Decrease) | Balance |
|---|---|---|---|---|
| | | Reserve - Budget Stabilization (Rainy Day Fund)................................................ | $ 0.4 | $ 0.4 |
| June | 1992 | Statutory Reservation - G. S. 143-15.3................... | 41.2 | 41.6 |
| June | 1993 | Statutory Reservation - G. S. 143-15.3................... | 134.3 | 175.9 |
| July | 1993 | Withdrawal from Reserve ....................................... | (121.0) | 54.9 |
| June | 1994 | Statutory Reservation - G. S. 143-15.3................... | 155.7 | 210.6 |
| January | 1995 | Budget Stabilization Appropriation.......................... | 66.7 | 277.3 |
| June | 1995 | Statutory Reservation - G. S. 143-15.3................... | 146.3 | 423.6 |
| June | 1996 | Statutory Reservation - G. S. 143-15.3................... | 77.3 | 500.9 |
| June | 1997 | Statutory Reservation - G. S. 143-15.3................... | — | 500.9 |
| June | 1998 | Statutory Reservation - G. S. 143-15.3................... | 21.6 | 522.5 |
| June | 1999 | Statutory Reservation - G. S. 143-15.3................... | — | 522.5 |
| July | 1999 | Withdrawal from Reserve ....................................... | (200.0) | 322.5 |
| January | 2000 | Withdrawal from Reserve ....................................... | (286.0) | 36.5 |
| June | 2000 | Statutory Reservation - G. S. 143-15.3................... | $ 1.0 | $ 37.5 |

## General Fund Budgetary Shortfall Fiscal Year 2000-2001

The General Fund began fiscal year 2000-2001 with a zero unreserved fund balance on the budgetary basis. Payment on certain fiscal year 1999-2000 income tax refund obligations did not occur until fiscal year 2000-2001, and were made from fiscal year 2000-2001 funds. These income tax refund obligations consisted of approximately $100 million of individual income tax refunds deferred for payment to fiscal year 2000-2001 due to processing delays, and $20 million in corporate income tax refunds delayed to balance the General Fund budget on a cash basis. Additional unbudgeted payments totaling $58.5 million have been made in fiscal year 2000-2001 related to settled court cases (*Ford Motor Credit and Chrysler Credit*).

General Fund revenue collections have lagged expectations so far in fiscal year 2000-2001. General Fund tax and non-tax revenues are $301.8 million behind projections through November 30, 2000, and are expected to be short of projections by $325 million at June 30, 2001. Current estimates for Medicaid services for fiscal year 2000-2001 indicate an additional shortfall of between $80 million to $100 million. Therefore, the General Fund budget is experiencing a reduction in available resources in the range of $405 million to $425 million. The General Fund budget will, however, be balanced throughout the fiscal year and at the end of the fiscal year ending June 30, 2001.

The Office of State Budget, Planning and Management is in the process of examining State agencies operating budgets in an effort to cover the budgetary shortfall. Unaudited, General Fund budgetary financial information is available on the State's web page at: http://www.osc.state.nc.us/financial/.

## Other Funds

### *Proprietary Funds*

Operating revenues and operating expenses for the State's enterprise funds were $24.97 million and $130.4 million, respectively, in 2000. Operating loss was $105.4 million, with the majority of the loss reflected in the Child Health Insurance Program at $87.2 million. This loss is largely offset by nonoperating federal grants of $68.9 million and operating transfers in of $20.6 million. The Public School Insurance Fund, experienced an operating loss of $15.4 million in fiscal year 1999-2000, based on claims expenses of $19.6 million. Claims expenses for fiscal year 1998-99 were only $4.4 million. Excessive claims for fiscal year 1999-2000 were the result of damages sustained by public schools as a result of Hurricane Floyd as it passed through eastern North Carolina in September 1999.

Combined operating results for the State's internal service funds exhibited continued strength in 2000. Operating revenues and expenses for these cost-reimbursement funds totaled $348.6 million and $328.4 million, respectively, in 2000. Principal internal service fund operations include the Workers' Compensation Program, Death Benefit Plan, Prison Enterprises, the State Property Fire Insurance, Motor Fleet Management, Centralized Computing Services, and State Telecommunications.

### *Pension Trust Funds*

The operations of the Teachers' and State Employees' Retirement System continued its steady growth in 2000. The system's contributions increased by 11.6%. The system experienced a 10.2% increase in benefit payments to participants. Yield on investments for the Teachers' and State Employees' Retirement System approximated 9.4% for the fiscal year ended June 30, 2000. For the fiscal year ended June 30, 2000, the State continued to fund the actuarial required contribution. The State also participates in the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund, the Supplemental Retirement Income Plan of North Carolina, 401(k), and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant.

### *Debt Administration*

At June 30, 2000, the State had a number of debt issues outstanding. These issues included $2.5 billion in general obligation bonds, $1.9 billion in revenue bonds in the component unit proprietary funds and $1 billion in revenue bonds in the university funds. North Carolina continues to have AAA bond ratings issued by Standard and Poor's Corporation and Moody's Investors Service, the highest ratings attainable. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. North Carolina is one of only a very small number of states currently having the AAA ratings. In addition, approximately 25 percent of all AAA ratings for state and local governments nationwide are located in North Carolina.

### *Cash Management*

It is the policy of the State that all agencies, institutions, departments, bureaus, boards, commissions and officers of the State shall devise techniques and procedures for the receipt, deposit and disbursement of monies coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. The State Controller, with the advice and assistance of the State Treasurer, the State

Budget Officer, and the State Auditor, develops, implements, and amends the *Statewide Cash Management Policy*. All cash deposited with the State Treasurer by State entities is managed in pooled investment accounts to maximize interest earnings. During fiscal year 2000, uncommitted State funds were invested in short-term and medium-term U.S. Government notes and bonds, as well as other deposits, which had a composite average yield of 6.017%.

### *Risk Management*

The State has a limited risk management program for fire and other property losses. As part of this comprehensive plan, resources are being accumulated in an internal service fund to meet potential losses. See **Note 12** of the Notes to the Financial Statements for a full description of the State's risk management program.

## Other Information

### *Independent Audit*

In compliance with State statute, an annual financial audit of the State entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with generally accepted government auditing standards and his opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

### *Certificate of Achievement*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

### *Acknowledgments*

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout State government and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this Comprehensive Annual Financial Report should be directed to the Office of the State Controller at (919) 981-5454.

Respectfully submitted,

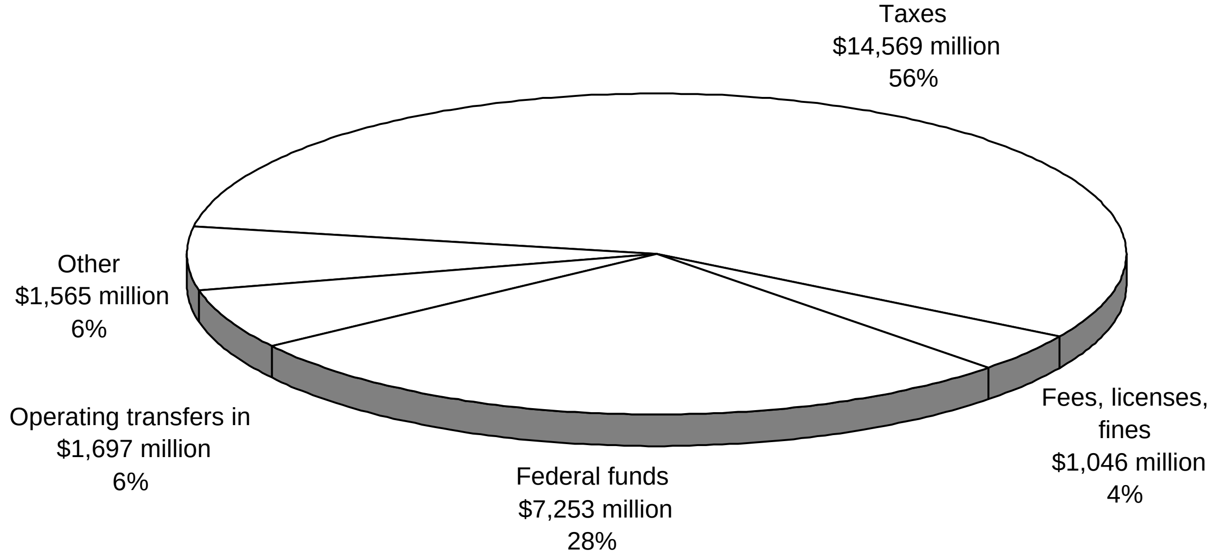
Edward Renfrow
State Controller

December 4, 2000

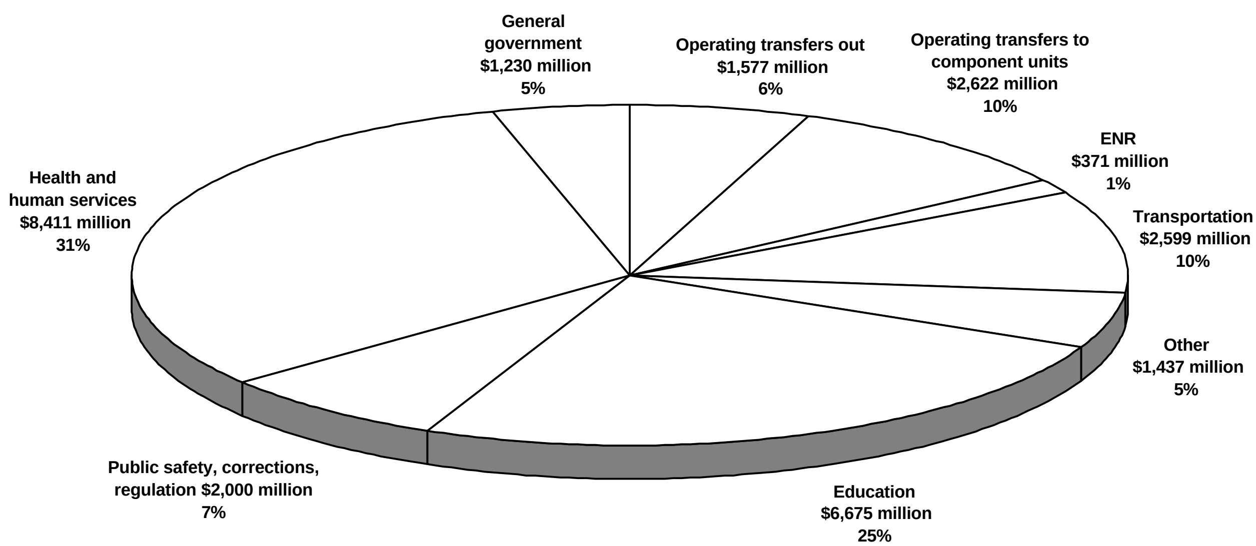
# General Governmental

### General, Special Revenue, and Capital Projects Funds
### For the Fiscal Year Ended June 30, 2000

**Revenues and Other Financing Sources**
**$26.130 billion**




**Expenditures and Other Financing Uses**
**$26.922 billion**



# CERTIFICATE OF ACHIEVEMENT

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1999

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

# ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

## *EXECUTIVE BRANCH*

### *Council of State*

Governor
**James B. Hunt, Jr.**

Lieutenant Governor
**Dennis A. Wicker**

Secretary of State
**Elaine F. Marshall**

State Auditor
**Ralph Campbell, Jr.**

State Treasurer
**Harlan E. Boyles**

Superintendent of Public Instruction
**Dr. Michael E. Ward**

Attorney General
**Michael F. Easley**

Commissioner of Agriculture
**James A. Graham**

Commissioner of Labor
**Harry E. Payne**

Commissioner of Insurance
**James E. Long**

### *Cabinet Secretaries — Appointed by the Governor*

Administration
**Katie G. Dorsett**

Correction
**Theodis Beck**

Crime Control and Public Safety
**David E. Kelly**

Cultural Resources
**Betty Ray McCain**

Commerce
**Rick Carlisle**

Environment & Natural Resources
**Bill Holman**

Health and Human Services
**Dr. H. David Bruton**

Juvenile Justice and Delinquency Prevention
**George L. Sweat**

Revenue
**Muriel K. Offerman**

Transportation
**David McCoy**

### *Appointed by Governor, confirmed by Legislature*

Office of the State Controller
**Edward Renfrow**
***State Controller***

State Board of Education
**Phillip J. Kirk, Jr.**
***Chairman***

### *Appointed by State Board of Community Colleges*

**H. Martin Lancaster**
***President***

### *Appointed by University Board of Governors*

**Molly C. Broad**
***President***

## *LEGISLATIVE BRANCH*

### *General Assembly*

| ***Senate*** | ***House of Representatives*** |
|---|---|
| President<br>**Lieutenant Governor** | Speaker<br>**James B. Black** |
| President Pro Tempore<br>**Marc Basnight** | Speaker Pro Tempore<br>**Joe Hackney** |
| Deputy Pres. Pro Tempore<br>**Frank W. Ballance, Jr.** | |
| Majority Leader<br>**Roy A. Cooper, III** | Majority Leader<br>**Philip A. Baddour** |
| Minority Leader<br>**Patrick J. Ballentine** | Minority Leader<br>**Richard T. Morgan** |

## *JUDICIAL BRANCH*

### *North Carolina Supreme Court*

Chief Justice
**Henry E. Frye**

Associate Justices
**Franklin E. Freeman, Jr.**
**I. Beverly Lake, Jr.**
**Robert F. Orr**
**Mark D. Martin**
**Sarah Parker**
**George L. Wainwright, Jr.**

Administrative
Office of the Courts
**Judge Thomas W. Ross**
Director

## *Component Units*

- ***University of North Carolina System***
- ***Community Colleges***
- ***Proprietary Funds***
- ***Golden L.E.A.F. Foundation***

**State of North Carolina Web Page**
**http://www.state.nc.us**